Intragovernmental Eliminations

Brief to the EB-SPS Users' Conference

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Overview

- Introduction
- Intragovernmental Transactions Defined
- Eliminations Defined
- DoD’s Material Weakness
- DoD’s Proposed Solution
- IGT – The Future
- Resources

Introduction

- Intragovernmental Transactions (IGT) and Eliminations is a Government-wide Material Weakness
- IGT is one of DoD's 11 Material Weaknesses
- Prevents Unqualified Audit Opinion on DoD and Government-wide Financial Statements

Intragovernmental Transactions - Defined

- Any transactions involving sales, services or transfers between two entities of the federal government
- There are 3 recognized levels of intragovernmental transactions
  - Level 1 = Between DoD and Non-DoD Entities
  - Level 2 = Between DoD Components
  - Level 3 = Within DoD Components

Eliminations – Defined

- Generally Accepted Accounting Principles (GAAP) require the elimination of intragovernmental transactions from consolidated financial statements to prevent overstating accounts for intra-entity activity
  - Revenues must match Expenses (and Capitalized Assets)
  - Accounts Receivable must match Accounts Payable
  - Transfers In must match Transfers Out
- When the seller's revenue matches the buyer's expenses, both are eliminated - removed from the consolidated total
- Goal is to eliminate all intragovernmental balances with no adjustments needed

DoD's Material Weakness

- Eliminations must be fully supported with transaction level details, including identification of buyers and sellers – they must be auditable

- DoD cannot support eliminations with the details required to pass an audit
  - Most DoD systems do not capture the required data fields
  - Lack of standardization
  - Timing differences
  - Inability to reconcile between trading entities

DoD's Solution

- Develop a clearing house for DoD intragovernmental transactions that will:
  - Allow for identification of parties to transactions
  - Capture and summarize transactions for reporting purposes
  - Facilitate reconciliation of reported intragovernmental transactions to the source accounting systems and between trading partners
  - Provide detail support necessary to pass audit
  - Interface with OMB's Intragovernmental Transactions Exchange for level 1 transactions to which DoD is a party

IGT – The Future

- Use SPS to create and route intragovernmental transactions
- Incorporate mandatory data elements into ERP solutions
- IGTE/OMB future

Resources

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Intragovernmental Transactions in Consolidated Financial Reports